

**NATIONAL DEMOCRATIC INSTITUTE
GRANT'S SECURITY COSTS AND
IMPACT GENERALLY SUPPORTED, BUT
DEPARTMENT OF STATE OVERSIGHT
LIMITED**

**SIGIR 11-001
OCTOBER 13, 2010**

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SIGIR

Special Inspector General for IRAQ Reconstruction

Summary of Report: SIGIR 11-001

Why SIGIR Did This Study

This report addresses the Department of State's (DoS) management of a \$50 million grant to the National Democratic Institute (NDI) for democracy-building activities in Iraq. This is the largest grant awarded to NDI by the Bureau of Administration, Office of Acquisitions Management (AQM) on behalf of the Bureau of Democracy, Human Rights, and Labor (DRL) and is intended to support governance, political party, and civil society programs in Iraq. DRL's mission is to lead U.S. efforts to promote democracy, protect human rights and international religious freedom, and advance labor rights globally.

In a prior audit, SIGIR found that both NDI and the International Republican Institute (IRI), which also received DRL democracy grants, had significant security costs, and DRL did not have documentation on whether either grant was meeting its goals (SIGIR 10-012). Subsequently, SIGIR reviewed IRI's largest DRL grant more in depth (SIGIR 10-022). In this follow up audit, SIGIR's objectives are to examine for NDI's \$50 million DRL grant, the reasonableness, allowability, and allocability of NDI's claimed security costs, and the extent to which the grantee documented its success in achieving governance, political participation, and civil society goals and objectives.

What SIGIR Recommends

SIGIR recommends that the U.S. Secretary of State take actions to improve grant management to include: requiring that NDI's next A-133 audit include a comprehensive audit of indirect costs and a compliance audit for at least one major DRL grant; directing that given the similar problems we found in IRI and NDI grants, Grants Officers consider requiring these more comprehensive A-133 audits for all DRL grants; and requiring that the Grants Officer Representatives enforce grant requirements that NDI provide measurable indicators of their success in meeting grant goals and objectives.

Management Comments

In written comments on a draft of this report, DRL, with AQM input, concurred with both recommendations. SIGIR believes the actions identified by management are responsive to this report's recommendations.

For more information, contact SIGIR Public Affairs at (703) 428-1100 or PublicAffairs@sigir.mil

October 13, 2010

NATIONAL DEMOCRATIC INSTITUTE GRANT'S SECURITY COSTS AND IMPACT GENERALLY SUPPORTED, BUT DEPARTMENT OF STATE OVERSIGHT LIMITED

What SIGIR Found

NDI's \$13.5 million in security costs charged to the grant were generally reasonable, allowable, and allocable in accordance with federal regulations except for overhead costs. To assure reasonableness of costs, the grantee engaged in open competition and selected the contractor based on a cost analysis. Security costs were allocated among its grants to best assure that costs were distributed in reasonable proportion to the benefits received from the grants as required under Federal regulations governing grant management. Additionally, SIGIR's analysis did not identify any instances where the grantee paid for any unallowable items.

SIGIR found, however, that the grantee appears to have charged more for security contract administration, which is an indirect cost, than allowed, which reduces the amount of funds available for direct program activities. To illustrate, according to a negotiated indirect cost agreement with the U.S. Agency for International Development (USAID), in fiscal year 2009, NDI should have charged only \$17,925 as indirect security costs for all federal grants receiving benefits from its security contractor, but instead charged \$95,311 against just the one DoS grant under review. Therefore NDI appears to have overcharged the grant \$77,386 in overhead costs. NDI officials stated that they were operating in good faith and sought to ensure the appropriateness of their approach by maintaining regular communications with USAID. However, the USAID official who set the rates, and the DoS Grants Officer who was responsible for monitoring the grant, stated they were unaware of how the grantee was calculating indirect costs. This mirrors our finding from our previous report on IRI. Furthermore, required annual audits and progress reports provided limited insight into such specific financial management practices. DoS officials stated that in response to our work, Grants Officers will take a more active role in overseeing awards in the future and have recently received authority to hire additional staff. Until that occurs, DoS will not be providing the level of financial oversight its internal policy manual, and sound management practices, require. Unless a more in-depth audit is conducted, DoS would be unable to determine whether any funds should be recouped.

SIGIR confirmed that the grantee maintained comprehensive information on what activities it led to further democratic goals and objectives, and the grantee conducted several impact assessments on the extent to which progress was made meeting grant objectives. Nevertheless, the grantee does not have a systematic approach with clearly defined metrics to measure the impact of all of its work in meeting grant goals and objectives. DRL noted that it continues to take steps to improve monitoring and evaluation we previously noted. For example, it is requiring more comprehensive and empirically based impact assessments and is reviewing its staffing structure to assure it has adequate oversight. NDI officials stated that the organization has incorporated DRL's increased evaluation requirements in a recently awarded grant from DRL. Both in-depth assessments and improved DoS oversight will be needed to provide decision makers the capability to ensure that activities are designed and implemented to achieve program objectives.



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

October 13, 2010

MEMORANDUM FOR U.S. SECRETARY OF STATE

SUBJECT: National Democratic Institute Grant's Security Costs and Impact Generally Supported, but Department of State Oversight Limited (SIGIR 11-001)

We are providing this report for your information and use. It primarily pertains to the Bureau of Democracy, Human Rights, and Labor (DRL), and Bureau of Administration, Office of Acquisition Management (AQM) oversight of DRL grants to the National Democratic Institute. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. This audit was conducted as SIGIR Project 1007b.

DRL provided written responses to the recommendations in a draft of this report. Their responses incorporated input from AQM. We have included their comments in Appendix F. We also obtained technical comments and addressed them in the report as appropriate.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn Furbish, Assistant Inspector General for Audits (Washington, DC), (703) 604-1388/ glen.furbish@sigir.mil or Jason Venner, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 607-1346/ jason.venner@sigir.mil.



Stuart W. Bowen, Jr.
Inspector General

cc: Under Secretary of State for Democracy and Global Affairs
Under Secretary of State for Management
Assistant Secretary for Democracy, Human Rights, and Labor
Assistant Secretary for Administration
U.S. Ambassador to Iraq
Secretary of Defense
Commander, U.S. Central Command
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National Democratic Institute Grant's Security Costs and Impact Generally Supported, but Department of State Oversight Limited

SIGIR 11-001

October 13, 2010

Introduction

On January 26, 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) issued a report¹ on the Department of State's (DoS) Bureau of Democracy, Human Rights, and Labor's (DRL) management of 12 grants awarded between 2004 and 2009. Those grants, valued at approximately \$248 million, were awarded to the International Republican Institute (IRI) and the National Democratic Institute (NDI) for democracy-building activities in Iraq. That audit found that the grants had significant security costs, and DRL did not have sufficient documentation on whether the grants were meeting their goals and whether the grant funds were being used in the most effective and efficient manner. However, IRI and NDI officials assured us they had assessments of their success and that the security costs were reasonable under the unique circumstances in Iraq.²

This report focuses on DoS oversight of NDI's largest DRL grant valued at \$50 million, as well as the reasonableness, allocability, and allowability of security costs and NDI's impact assessments for the grant. This grant³ was awarded with DoS's fiscal year 2007 Human Rights and Democracy Fund⁴ and is intended to support governance, political party, and civil society programs in Iraq.

Background

DRL's mission is to lead U.S. efforts to promote democracy, protect human rights and international religious freedom, and advance labor rights globally. DRL uses grants rather than contracts to conduct democracy-building activities in Iraq. Because DRL does not have dedicated Grants Officers (GO), it relies on the Bureau of Administration, Office of Acquisition Management (AQM) to award and amend its grants. Both DRL and AQM have responsibilities for managing the grants.

Office of Management and Budget (OMB) circulars provide the standards, policies, requirements, and guidance that federal agencies and grant recipients must follow in

¹ *Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants* SIGIR 10-012, 1/26/2010.

² In July 2010 we issued a report examining DoS management of DRL's largest grant to IRI, and the reasonableness, allocability, and allowability of security costs incurred by the grantee, and the extent to which the grantee documented its success in achieving grant goals and objectives. *Improved Oversight Needed for State Department Grant to the International Republican Institute*, SIGIR 10-022, 7/29/10.

³ Grant S-LMAQM-07-GR-210.

⁴ Public Law 110-28, "U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act," 2007.

administering grant programs. They reflect the relatively limited levels of federal involvement and place most of the grant management responsibilities on the recipient.

Difference between Grants and Contracts

Grants differ from contracts in purpose and level of anticipated government involvement. The Federal Grant and Cooperative Agreement Act of 1977 established standards that agencies are to use in selecting the most appropriate funding vehicle to achieve uniformity in their use, a clear definition of the relationships they reflect, and a better understanding of the responsibilities of the parties to them. The different instruments discussed were: contracts (also known as acquisition awards), grants, and cooperative agreements.⁵ The act also authorized the Director of OMB to provide additional guidance via regulations, including Circulars A-110, A-122, and A-133, discussed later in this report.

According to the act and OMB guidance, contracts are to be used when the government intends to acquire property or services for the direct benefit or use of the Federal Government, but grants may not directly benefit the government. In addition, grants are to be used when the principal purpose of the relationship is to transfer something of value, such as money, property, or services, to the recipient to carry out a public purpose of support or stimulation authorized by a U.S. law, and substantial involvement is not expected between the agency and the recipient. The DoS *Federal Assistance Policy Manual*⁶ summarizes the differences between assistance awards (grants or cooperative agreements), and acquisition awards (contracts). These differences are highlighted in Table 1.

Table 1—Distinction between Assistance (Grants and Cooperative Agreements) and Acquisition (Contract) Awards

Assistance Awards	Acquisition Awards
Advance payment allowed if appropriate	Pay for delivery after receipt
Technical/Program competed	Price must also be considered
Recipient can terminate	No contractor has right to terminate
Deliverable is a report or completion of project	Product or service required
Guidance from OMB Circulars	Guidance from Federal Acquisition Regulations

Source: DoS *Federal Assistance Policy Manual*, 3/2008.

Regulatory Differences between Grant and Acquisition Instruments

Federal oversight requirements of grants are less stringent than those for contracts. To illustrate, the Federal Acquisition Regulation requires contractors that are awarded cost-reimbursable contracts to provide contracting officers detailed bills or invoices for every cost incurred, and requires contracting officers to review the invoices to determine if they are appropriate expenditures in meeting the terms of the contract. On the other hand, Federal regulations do not require similar review for grantee expenditures. Regulations from OMB, specifically OMB

⁵ The portion of the act distinguishing grants from contracts was codified in 31 U.S.C. sections 6301-6308.

⁶ DoS *Federal Assistance Policy Manual*, 3/2008.

Circular A-110,⁷ Subpart C, Post Award Requirements, places the day-to-day financial oversight responsibility on the grant recipient and, in fact, limits the extent of financial reporting an agency can require to at least annually, but not more than four times a year. Grant recipients usually are required to simply submit a claim to the GO for reimbursement of their costs quarterly and may also obtain advance payments.

Unlike contracts that have an array of audit requirements under the Federal Acquisition Regulation, such as pre-award financial system audits, internal control audits, and post-award cost audits that are usually conducted by the Defense Contract Audit Agency, grantees are required by OMB Circular A-133 to obtain a single annual audit of the organization, usually conducted by a private external audit firm. The awards process is expected to determine the appropriateness of the planned grant expenditures, and the organization's OMB Circular A-133⁸ annual audit conducted by an external audit firm is expected to inform the awarding agency about the adequacy of the recipient's financial management system, both before making the award, and afterwards, when the grantee is expending funds. OMB guidance requires that when financial issues are brought to the attention of the awarding agency, either through an audit or other monitoring mechanism, the agency must exercise its fiduciary responsibility. For example, OMB Circular A-133, Subpart D, Federal Agencies and Pass-Through Entities Responsibilities, requires the awarding agency to review and resolve audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.

OMB Circular Cost Principles

In addition to Circulars A-110 and A-133, Circular A-122, *Cost Principles for Non-Profit Organizations*,⁹ establishes principles for determining reasonable, allocable, and allowable costs that a non-profit organization can claim against a grant award. The circular defines reasonable, allowable, and allocable costs as follows. We used these criteria in performing our work.

Reasonable Costs: a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

- whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award
- the restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, Federal and State laws and regulations, and terms and conditions of the award

⁷ OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, revised 11/19/93, as further amended 9/30/99, 2 C.F.R. Part 215.

⁸ OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, revised to show changes published in the *Federal Register* June 27, 2003 and June 26, 2007.

⁹ OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, revised May 10, 2004.

- whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government
- significant deviations from the established practices of the organization which may unjustifiably increase the award costs

Allocable Costs: a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- is incurred specifically for the award
- benefits both the award and other work and can be distributed in reasonable proportion to the benefits received
- is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown

Allowable Costs: a cost is allowable if it is not specifically stated as unallowable in Circular A–122, Attachment B, and in certain provisions of Circular A–110; for example alcoholic beverages, bad debts, entertainment, and items that require preapproval of the agency.

DoS Monitoring Policy Guidance Provides Flexibility in Oversight

DoS's standard operating procedures demonstrate that the relatively limited levels of federal oversight required do not relieve the department from its fiduciary responsibility to monitor the funds it allocates and administers. The DoS *Federal Assistance Policy Manual*, states, for example, that its oversight must include continuous review of a grantee's "programmatic and financial management performance." Moreover, the policy states that the GO and the Grants Officer Representative (GOR) should ensure that a recipient is using the funds for the intended purpose, charges allowable costs at the appropriate times, and meets all goals. This can include reports, as well as interaction with the recipient through meetings, site visits, or correspondence.

DoS's *Federal Assistance Policy Manual* implements the agency's grant management and monitoring requirements.¹⁰ The policy manual describes four methods for GOs and their representatives to monitor the financial management aspects of assistance awards:

- monitoring by telephone or letter
- periodic financial status and progress reports with their content and frequency determined by specific bureau, program and award conditions
- site visits as warranted by the project/program need or as requested by the recipient to substantiate financial progress and compliance with laws, regulations, policies, and to provide technical assistance

¹⁰ *Federal Assistance Policy Manual*, U.S. Department of State Bureau of Administration, Office of the Procurement Executive, Federal Assistance Division (A/OPE/FA), Version 1.1, March 2008.

- audits which include the annual audits conducted to examine financial and compliance matters, and follow up on any identified material weakness which if not corrected by the recipient may be defined as program abuse and lead to suspension or termination

The manual provides GOs and GORs flexibility in determining the type of oversight mechanism to use, and the frequency of its monitoring activities, for each grant. Criteria to judge the extent of oversight required includes an assessment of whether the recipient is reliable, has developed a well-planned project, and if the expected requirements have been clearly communicated from both sides. The manual concludes that if such conditions exist the monitoring can be expected to be a simple, positive experience.

Grants Awarded to NDI

Between August 2004 and February 2010, DRL awarded eight grants to NDI for approximately \$155 million. Table 2 shows those eight democracy-building grants.¹¹

Table 2—DRL Grants Awarded to NDI (\$ in millions)

Award Date	Grant Number	Project	Grant Amount	Expiration Date
8/31/04	S-LMAQM-04-GR-140	Political Training	\$1.5	3/31/06
6/13/06	S-LMAQM-06-GR-098	Governance Civil Society	53.0	12/31/07
8/31/06	S-LMAQM-06-GR-149	Political Training	0.7	11/30/07
9/12/07	S-LMAQM-07-GR-210 ^a	Governance, Political Participation, and Civil Society	50.0	3/31/11
5/12/08	S-LMAQM-08-GR-550	Women's Political Participation	1.8	12/31/10
8/18/08	S-LMAQM-08-GR-602	Increasing Accountability and Representation in Elections	27.5	1/31/11
12/09/09	S-LMAQM-10-GR-503	Promoting the Credibility and Transparency of Iraqi National Elections	5.0	11/30/10
2/25/10	S-LMAQM-10-GR-533	Improving Governance to Help Democracy Deliver	15.0	3/31/11
Total			\$154.5	

Note:

^a Grant reviewed by SIGIR.

Source: SIGIR analysis of DRL data, as of 8/25/2010.

Of those grants, we reviewed a \$50 million grant to support governance, political participation, and civil society programs in Iraq, in accordance with the goal and strategic objectives of the *U.S. Strategy for Democracy in Iraq 2007-2010*. The grantee focused S-LMAQM-07-GR-210 (grant 210) on three principal goals: equipping activists with the tools to work toward reconciliation and community-building; strengthening Iraq's still-fledgling institutions of

¹¹ The Iraq Relief and Reconstruction Fund, the Economic Support Fund, and the Human Rights Democracy Fund have funded these grants.

governance; and preparing for a series of elections and referenda likely to be held in the future. To achieve these goals, the grantee conducts program activities with Iraqi political parties, civil society groups, and members of the Iraqi government:

- Trainings included voter contact campaign training for political party members and grant management training for sub-grantees.
- Study missions included a trip for nine Iraqi civic activists to Morocco to expose them to strategies and techniques that Moroccan civil society organizations have used successfully to mobilize their communities and conduct advocacy campaigns that address issues of local, regional, and national concern.
- Sub-grants were also awarded to Iraqi organizations to accomplish grant goals.

See Figure 1 for a photo of grantee training on media relations for female political party members.

Figure 1—NDI Training for Grant 210



Source: NDI 1/2008.

Objectives

SIGIR's objectives are to examine NDI's \$50 million DRL grant for the reasonableness, allocability, and allowability of the grantee's claimed security costs, and the extent to which the grantee documented its success in achieving governance, political participation, and civil society goals and objectives. For a discussion of the audit scope and methodology, see Appendix A. For a list of SIGIR's review of supporting documentation for grantee activities, see Appendix B. For information on the grantee's assessment of grant 210 completion status as of April 30, 2010, see Appendix C. For a list of acronyms used in this report, see Appendix D. For a list of the audit team members, see Appendix E. For Department of State, Bureau of Democracy, Human Rights, and Labor comments, see Appendix F. For the SIGIR mission and contact information, see Appendix G.

Security Costs Generally Appropriate though DoS Oversight Is Limited and Indirect Costs Questionable

NDI security costs charged to the grant were generally reasonable, allocable, and allowable, but existing DoS mechanisms were not sufficient to monitor NDI's financial performance and detect a potentially erroneous charge for overhead costs. SIGIR found that NDI appears to have charged more overhead costs for security contract administration than allowed which reduces the amount of funds available for direct program activities. Grantee officials stated that they were operating in good faith and sought to ensure the appropriateness of their approach by maintaining regular communications with USAID indirect cost negotiators. However, neither USAID nor the DoS GO was aware of how NDI was applying its security contract indirect cost rates. Moreover, required annual audits and progress reports provided only limited insight into grantee financial management practices. DoS officials stated that GOs will take a more active role in overseeing awards in the future, and AQM recently received authority to hire additional staff. Until that occurs, DoS will not be providing the level of oversight its internal policy manual, and sound management practices, require. Unless a more in-depth audit is conducted, DoS would be unable to determine whether any funds should be recouped.

Security Costs Appear To Be Reasonable, Allocable, and Allowable

Our review of NDI's financial management of its security costs for grant 210 indicates that the costs incurred were generally reasonable, allocable, and allowable, as defined by OMB Circulars A-110 and A-122. Regarding the reasonableness of the costs, NDI took specific measures to ensure that the security costs it incurred were not unduly high. NDI awarded its contract to Unity Resources Group based on full and open competition and price analyses of the bids submitted. To illustrate, NDI submitted a request for proposals outlining its security needs to four qualified security vendors. Based on a price analysis between the two vendors responding to the solicitation, NDI officials stated that they chose the lowest priced vendor with what it assessed to be the best technical solution. Since NDI followed procurement procedures contained in OMB Circular A-110, we have concluded that the resulting costs were reasonable.

Security costs were also appropriately allocated among the grants awarded to the grantee. The grantee allocated security costs for services that are shared among its grants to best assure that costs are distributed in reasonable proportion to the benefits received from each grant.

Specifically, NDI informed us that it distributed security costs on the basis of the total value of grants active during the month of allocation. To determine if this was the case, we tested the accuracy of charges made against grant 210 and the other ongoing grants. To illustrate, in August 2008, the grantee had three active grants—grant 210 for \$50 million, S-LMAQM-08-GR-550 (grant 550) for \$1.8 million, and a National Endowment for Democracy agreement 2008-032 for \$125,000. It is necessary to include the National Endowment for Democracy agreement in the calculation because the work conducted under the agreement received benefits from the security contractor.

The grantee correctly allocated 96.3% of security costs to grant 210 as the value of that grant equaled 96.3% of the total value of active NDI grants at that time. Similarly, the grantee

allocated 3.5% of security costs to grant 550 and 0.2% of security costs to the National Endowment for Democracy grant. In doing so, the grantee followed OMB Circular A-122 which requires that grantees allocate costs among grants according to actual usage.¹²

OMB Circular A-122 stipulates costs that are unallowable such as entertainment. To determine if the grantee paid for any unallowable costs, we judgmentally sampled 13 of 116 documents (\$1.7 million of \$13.5 million NDI security costs claimed) associated with billings from Unity Resources Group. These documents included invoices and accounting adjustments. We reviewed the documents to determine if any purchases appeared unallowable, according to OMB Circular A-122. Our review of the documents did not identify any instances of unallowable costs.

Indirect Costs Appear To Have Been Overcharged

The grantee appears to have charged more indirect, that is, overhead costs, for security contract administration than allowed in its 210 grant agreement. Indirect costs in this case would include, for example, headquarters costs associated with administering the security contract. This is important as it reduces the amount of funds available for direct program activities.

According to a signed agreement between NDI and USAID, the grantee is allowed to recover indirect costs associated with the administration of any contracts it awards under grants. To ensure that the government is not overcharged for these costs, the agreement limits the amount of indirect costs that can be applied annually to contracts awarded using grant funds. Specifically, NDI must apply the negotiated indirect cost rate to only the first \$25,000 of a contract's value in any given year prior to September 30, 2008, and \$75,000 of a contract's value in any given year after October 1, 2008.

For grant 210, the grantee used an inappropriate methodology and applied the \$25,000/\$75,000 ceiling on a task order rather than an annual basis. According to the grantee, the task order time periods ranged from three to six months each. The grantee reasoned that the task order it received from the contractor should be viewed as an individual contract. This approach resulted in the grantee charging its indirect cost rate against \$150,000 in fiscal year 2008 and \$600,000 in fiscal year 2009 rather than \$25,000 for fiscal year 2008 and \$75,000 in fiscal year 2009 for the single contract.

An example of the results of this practice is the amount the grantee charged for the administration of the Unity Resources Group contract in fiscal year 2009. According to the negotiated indirect cost agreement, the grantee should have charged 23.9% of \$75,000 or \$17,925 as an indirect cost for all federal grants participating in Unity Resources Group security. Instead the grantee charged 23.9% of \$398,790 or \$95,311 against grant 210 alone. Therefore NDI appears to have overcharged the grant \$77,386 in overhead costs. In addition to grant 210, the grantee had three other grants during fiscal year 2009 that were charged similarly for overhead for the administration of the fiscal year 2009 security contract.

¹² OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, Paragraph A.4.

NDI officials said that they discussed their approach for charging indirect cost rates with the appropriate USAID official and that their decision to charge indirect costs to each task order was based on those discussions. We discussed this approach with the USAID indirect cost negotiator who set the rate. This official informed us that a contract is for a specific period of performance, and each task order is not a separate contract. He stated that in his view, the grantee's interpretation is incorrect and unallowable.

The apparent overcharging of indirect costs by NDI mirrors our finding from our previous report on IRI; we found that IRI also appeared to have overcharged for these costs. In both cases the organizations developed methodologies to calculate indirect costs that the USAID officials who set the rates said were inappropriate.

DoS Oversight and Monitoring Needs To Be Improved

Although SIGIR found that NDI was generally a good steward of grant security funds, existing DoS oversight and monitoring mechanisms would not have been able to prevent, or detect, any potentially questionable costs. In the *Federal Assistance Policy Manual* DoS identifies the various alternative methods of performing financial monitoring based upon a risk assessment of the grantee such as direct monitoring by telephone or letter, review of financial and progress reports, performing site visits of the grantee and performing audits. However, neither the GO nor the GOR developed and implemented a monitoring plan for NDI utilizing these methods. This situation occurred for a variety of reasons. First, the GO was not sufficiently involved in grantee decision making. For example, AQM informed us that it did not know how the grantee was applying indirect cost rates and had not received any GOR analyses on grantee quarterly reports. Also, severe staff shortages inhibited their ability to actively engage with the grantee. According to the AQM Grants Team Lead, in 2007 and 2008, while this grant was active, the number of GOs decreased from five to one. While the number of GOs has since increased, adequate staffing remains a problem with each officer responsible for approximately 250 open grants. AQM recently received authority to hire additional GOs. Moreover, in response to our July 2010 report¹³ on management of the grant to IRI, AQM stated that it was taking steps to address the need for adequate GO staffing of DRL grants.

Financial information available to DoS was also insufficient to detect questionable costs. As discussed in a previous audit report, the periodic financial reports that OMB requires were not designed to achieve this purpose.¹⁴ While the grantee provided DoS with a detailed budget plan outlining the anticipated costs to perform the grant objectives, the quarterly reports required by OMB provided only a summary figure on expenditures against the grant. Without more detailed information, the Department would be unaware of expended line items versus grantee performance.

Additionally, to date, the GO has not visited either NDI headquarters in Washington, D.C. or operations in Iraq. Such visits would allow the GO to determine whether the grantee is in compliance with applicable OMB Uniform Administrative Practices and the Terms and Conditions of the federal assistance awards. The site visit would allow the GO and NDI to

¹³SIGIR 10-022.

¹⁴SIGIR 10-012.

identify any cost items that might need advance agreement. According to the AQM Grants Team Leader, the GO was scheduled to conduct a site visit to NDI in fiscal year 2010 but has been unable to complete the visit due to other demands. The official stated that the office had resources to conduct only a limited number of site visits to grantees and relied on the GOR to monitor grantee performance in Iraq. We previously reported¹⁵ and note later in this report that GOR oversight has also been limited.

Finally, annual audits of the grantee are at a level that is too broad to identify many of the questioned costs that might be identified through a more focused review of individual grants. For example, NDI's annual audit did not question the cost base for charging overhead because that issue is much more specific than the issues addressed in the audit. Conducted by private Certified Public Accounting firms, OMB Circular A-133 audits are primarily audits of an organization's financial statements and general compliance with OMB circular requirements. In addition, the compliance aspect of the audit is done on a risk basis, selecting only major programs and examining the highest-risk financial transactions within those programs. Unless specifically directed to do so by a funding agency, it is unlikely that an A-133 audit for a large, global entity like NDI would cover a particular program or grant. Therefore, the annual audit reports, by their nature, would not necessarily provide DoS the detail it needs to monitor a particular grant. Unless a more in-depth audit is conducted, DoS would not be in a position to make a final determination as to whether any funds should be recouped.

¹⁵ SIGIR 10-012.

Grantee Documented Activities and Some Indicators of Impact

The grantee documented the activities it led to foster democratic goals and objectives in Iraq, and conducted some assessments of the progress made toward meeting objectives under grant 210. SIGIR confirmed that in most cases the grantee maintained comprehensive information on its activities, and the number and type of participants. Moreover, the grantee conducted several assessments to gauge the impact of specific activities it undertook to achieve some of the grant's objectives. Nevertheless, the grantee does not have a systematic approach with clearly defined metrics to measure the impact of all of its work in meeting grant goals and objectives. DRL noted that it continues to take steps to improve monitoring and evaluation. For example, it is requiring more comprehensive and empirically based impact assessments and assessing its staffing structure to assure it has adequate oversight. NDI officials stated that the organization has incorporated DRL's increased evaluation requirements in a recently awarded grant from DRL. Both in-depth assessments and improved DoS oversight will be needed to provide decision makers the capability to ensure that activities are designed and implemented to achieve program objectives.

NDI Documents Activities

The grantee documented activities associated with trainings for its largest grant from DRL with agendas, sign-in sheets, training materials, and activity reports provided to clients, including DRL. For grant 210, DoS included in the grant award standard terms and conditions requiring that the grantee submit program progress reports and suggested that reports include supporting documentation or products related to project activities (such as articles, meeting lists and agendas, and manuals). However, neither the terms and conditions nor DoS specify what documentation must be maintained as support that activities occurred. SIGIR previously reported that DRL records contained most of the required reports from the grantee, but the grantee did not always include documentary evidence of activities in its reports.¹⁶

Quarterly Reports and Grantee Records Contain Evidence of Activity

Grantee reports to DRL included some supporting documentation to demonstrate that it conducted activities it reported to DRL. The grantee submitted eleven quarterly progress reports to DRL since the grant was awarded. These reports contain detailed information on training and other actions such as election monitoring, and included photos and results from initiatives such as opinion polls the organization undertook. While all the quarterly reports for grant 210 include some kind of supporting documentation, the reports did not contain backup documents for all activities. According to grantee officials, this is to lessen the burden on DRL because of the number of activities and the volume of documentation.

As of December 31, 2009, the grantee reported it had conducted 311 activities for more than 5,000 Iraqi participants, including trainings, meetings with Iraqi officials, and study missions in

¹⁶ SIGIR 10-012.

support of the objectives for grant 210, according to a grantee official. The official stated NDI has conducted 9 additional activities for 368 participants since December 2009.

SIGIR judgmentally selected for review 32 of the 311 (approximately 10%) grantee-recorded trainings that were completed as of December 2009. The grantee provided some kind of documentation for each activity though SIGIR found some variation in the type of documentation provided as support. To illustrate, the grantee provided sign-in sheets for 26 of the 32 sampled activities. Of the six activities without sign-in sheets, two were study missions abroad for which the grantee was able to provide trip reports with participant names and receipts for airfare and lodging paid for participants. The remaining four activities without sign-in sheets were for meetings with one or a small group of Iraqi officials that would not necessarily require sign-in sheets since the number of participants was small. Grantee records for five multi-day activities were missing at least one sign-in sheet and support for one activity included only a printed list of participants without signatures.

In addition, grantee records included agendas of activities for 21 of the 32 sampled activities. The grantee did not provide agendas for the four meetings with one or a small group of Iraqi officials. The grantee also did not provide agendas for seven other activities, including proposal development training for potential sub-grantees and budget analysis overview training. Records for these activities, however, included other supporting documentation, such as participant signatures for per diem received and training materials. During our site visit to NDI's offices in Erbil, we observed an NDI session with sub-grantees reviewing results of voter education efforts leading up to the March 2010 election. During that session, we observed NDI staff obtaining signatures from participants and then providing them money for travel and other expenses.

The grantee did not always have materials such as training slides or information given to participants to demonstrate exactly what training took place. The grantee had some other types of supporting material for 14 of the 32 sampled activities. In addition, of the 32 total activities, 7 were meetings or other activities like focus groups with individuals or small groups, which would not necessarily require materials like training slides. However, 11 of the 32 activities involved training or study missions abroad where one would reasonably expect that the grantee had developed course materials. SIGIR is not raising this issue as a concern, however, because neither the grant terms and conditions nor DoS specified what type of documentation the grantee must maintain as support and because the grantee maintained some type of documentation for each activity. See Appendix B for the detailed results of SIGIR's document review.

NDI Provides Information beyond Grant Requirements

NDI provided information more frequently and in greater detail than the grant required. In addition to the quarterly reports required by the grant agreement, NDI provided DRL with regular reports designed to summarize activities for stakeholders. These reports, initially provided weekly but now on a monthly basis, provide information on activities, participants, justification for activities any effect the activities may have on other program elements. NDI

also contributed accomplishment reports for use by DoS in its regular reporting to Congress, which were provided until early 2009, according to grantee officials.¹⁷

According to an NDI official, in February 2010, NDI started using a centralized database to track information on whether the planned activities for each grant objective had been completed and information as to why certain grant activities may not have been completed or are currently unfulfilled. According to the GOR, NDI officials provided information from this database when requesting a no-cost extension for the grant. Prior to development of this database, the NDI program offices individually tracked information on their activities, but the grantee did not collect or summarize this information for the grant as a whole. This new tool allows NDI to capture the status of its work, identify gaps, and better plan future work.

To illustrate, NDI proposed activities in 37 broad categories under the 5 objectives of the grant. As of April 2010, it had completed 15 of the 37 planned activities. For example, NDI data showed that it had completed 7 out of 13 trainings and other activities required to address its objective to strengthen democratic political institutions to facilitate effective governance. On the other hand, as shown in Table 3, the data showed that no planned activities to promote increased participation of youth in the political process had been completed to address Objective C of the grant. Table 3 summarizes the results of NDI's assessment of completed activities under grant 210, as of April 2010. Appendix C contains a complete list of the grant activity status, including which activities were assessed as complete, ongoing, incomplete, or unfulfilled.

Table 3—Completion of Grant 210 Objectives and Activities, as of April 2010

Activity as Described in Grant Proposal	Complete
Objective A: Strengthen democratic political institutions to facilitate effective pluralist governance.	
Legislative process - budget analysis, rules of procedure, committee strengthening, strategic planning, protocol trainings	✓
Legislative process - develop and publish legislative drafting manual	-
Legislative process - training for Council of Representatives Finance Committee, Budget Office	✓
Legislative process - public hearings	-
Legislative process - staff training for Council of Representatives, Council of Ministers Secretariat, and the President's Office	-
Constituency outreach for Council of Representatives and political parties	-
Seminars for non-governmental organizations on gauging public opinion and mobilizing civic action	✓
Support civic group composed of former NDI staff in Baghdad	-
Support the development of issues-based coalitions of civic groups	✓
Political party training on internal democratic practices	✓

¹⁷ Section 2207 of the *Emergency Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan*, 2004, (P.L. 108-106) required that OMB submit a quarterly report to Congress on the status of Iraq Relief and Reconstruction Funds expenditure. Submission of these reports is no longer required.

Activity as Described in Grant Proposal	Complete
Political party training on internal and external communication	✓
Political party training on organizing conventions and congresses	-
Political party training on utilizing media	✓
Objective B: Provide a neutral space for political opponents to engage in inclusive dialogue and decision-making.	
Coalition-building training for political parties	-
Council of Representatives study missions	✓
Community Mobilization Program	-
Political party negotiation and conflict resolution training	✓
Conflict resolution forum in Kirkuk	✓
Objective C: Promote increased participation of youth in political processes.	
Focus group research on youth attitudes	-
Civil society youth training series	-
Multi-party Youth Training Academy	-
National forum for Youth Training Academy graduates	-
Advanced Youth Political Party Organizers Academy	-
Annual model youth parliament	-
Objective D: Promote increased participation of women in political processes.	
Support the development of a parliamentary women's caucus	✓
Capacity-building training academy for female legislators	-
Build networking capabilities of female activists and civil society organizations to build advocacy capacities	✓
Support and disseminate research on status of women's rights	-
Objective E: Support the neutral observation of elections and strengthen party organizational skills.	
Election monitoring for provincial elections	✓
Election monitoring for constitutional amendment referendum	-
Produce videos on election observation, constitutional review, and role of provincial councils	-
National conference in Baghdad to present results of provincial elections	-
Media monitoring training for provincial and constitutional elections	-
Political party campaign training for provincial elections	✓
Party agent training for provincial elections	-
Party code of conduct for provincial elections	-
Political party training on candidate selection	✓

Source: SIGIR Analysis of NDI information, April 2010.

Department of State Has Limited Oversight of NDI's Grant Activities

SIGIR previously reported that GORs communicate regularly with grantees, but the frequency and length of site visits has been affected by limited DRL staffing, travel cost considerations, security, and country clearance restrictions.¹⁸ As of April 30, 2010, the GOR assigned the NDI grant had responsibility for 12 grants which, including grant 210, totaled approximately \$197.4 million. DRL gains additional insight to grantee activities through two DRL democracy advisors in Iraq who communicate with and visit NDI's office in Erbil. In addition, GORs assigned to other grants have also made site visits to NDI, since the number of site visits by the assigned GOR has been limited due to the reasons mentioned above. However, the democracy advisors and GORs assigned to other grants do not conduct formal oversight of NDI. The current GOR has made only one visit to Iraq and neither the GOR nor democracy advisors have reviewed grantee documents to determine if there is support for NDI's quarterly reports to DRL. In addition, the GO for NDI's grants has not conducted any visits to NDI, either in the U.S. or in Iraq. GOs attribute their lack of site visits to the large number of grants they must monitor. According to these officers, their large workload forces them to rely on the DRL GORs to identify issues and bring them to the GO's attention.

NDI officials noted that despite limited site visits, they maintain regular communication. According to the officials, emails and telephone conversations provide the GOR with information on activities and help assure the GOR that the grantee is making progress in meeting objectives. The officials also noted that grantee staff based in Washington, D.C. has regular meetings with the GOR.

NDI Conducted Some Impact Assessments

NDI has made progress in assessing the impact of its work. According to the *Federal Assistance Policy Manual*, impact is defined as the cumulative or net effect of the outcomes or results, and there is an abiding U.S. government interest in measuring the success of programs supported by federal funds. The grant agreement requires that impact analyses be included in quarterly reports.

Grantee Quarterly Reports

SIGIR reported in January 2010 that the grantee's progress reports to DRL did not contain assessments of the impact of grant activities.¹⁹ Since we completed our analysis for that report, the grantee has submitted four quarterly progress reports to DRL. These reports, submitted between October 2009 and July 2010, contain detailed information, including photos, results from initiatives like polling, and some assessments of grantee activities. In each of the four reports, the grantee described assessments of grant impact and success in meeting grant objectives but did not always provide qualitative or quantitative results demonstrating their success in bringing about positive change.

For example, NDI reported on the impact of its efforts under the Women's Empowerment Program and the Youth Empowerment Steps. NDI stated in its March 2010 quarterly report that

¹⁸SIGIR 10-012.

¹⁹SIGIR 10-012.

it had assessed the results of the Women's Empowerment Program under which it trained approximately 50 women in 5 training modules from February 2008 through November 2009. The training modules focused on management of non-governmental organizations, grant proposal development, advocacy, negotiation and conflict resolution, and media skills. To assess impact, in March 2010 NDI conducted individual interviews with 30 participants to determine what they had done since completing training, identified how the training had affected the lives of the women, and gathered feedback to inform future program design. Among the stated results:

- Approximately one quarter of the women interviewed reported that the Women's Empowerment Program helped advance their training skills and professional responsibilities.
- Approximately one third of the women interviewed stated they used strategies from the grant proposal development session to apply for funding from international organizations. As an example, one participant was successful in receiving funds from the United Nations and the USAID.
- Four participants noted that they became leaders in their organizations.
- One participant stated that she used skills learned in the advocacy session during her successful campaign for a seat in the Council of Representatives.

Conversely, in the previous quarter, NDI reported it consulted with 14 members of the Council of Representatives' senior executive leadership and technical advisors twice but did not discuss the impact these meetings had. For example, the report stated that during the first meeting participants identified obstacles to the effective functioning of the Council of Representatives, and that the second session was intended, in part, to assess the progress made by the participants since the initial gathering. However, the quarterly report did not provide any qualitative or quantitative data demonstrating any progress other than a statement that officials who participated in the initial session noted that they were successful in applying NDI's recommendations. Such nebulous statements, however, do not provide the empirical evidence necessary to assess the program's impact.

According to grantee officials, the anticipated impact from this activity has not yet been achieved, due to a variety of political reasons, including the lack of a new government. They noted that NDI continues to follow-up on these consultations and is anticipating impact. They also stated that under a different DRL grant, NDI conducted an assessment of the workings of the Council of Representatives that among other things, demonstrated contributions from these meetings.

Limited Monitoring and Evaluation Plan Contributed to Problems in Assessing Impact

NDI's monitoring and evaluation plan did not contain metrics to enable the grantee to assess impact. DRL's request for proposals that resulted in the award grant 210 to NDI states that for each of the proposed programs conducted under the grant, the recipient should be able to assess impact and provide long- and short-term goals with measurable outputs and outcomes. The request defines outcomes as specific results a project is intended to achieve that are usually measured as an extent of change. The request also states that proposals would be judged in part

on the merit of the proposed program evaluation plan. In addition, the grant agreement for grant 210 from DRL states grantee quarterly progress reports should reflect the grantee's continued focus on measuring project impact on the overarching goals or problems the projects set out to address. Assessment of overall impact and/or incremental impact, as appropriate, should be included in each quarterly progress report. DRL defines impact as a change in social, economic, or civic condition.

In its application to receive grant 210, NDI stated it would evaluate progress toward its objectives by meeting regularly with partners to receive comments and critiques, collect press clippings and public announcements, and elicit feedback from participating national and international experts. NDI stated it would also measure progress toward indicators that demonstrate impact through techniques such as participant evaluations of classes and other activities, questionnaires regarding participant opinions of grantee activities, consultations with partners and donors, and development and use of focus group research. To achieve such analyses, NDI developed 33 indicators²⁰ for 5 grant objectives that it stated would show progress toward meeting the objectives. However, not all of the indicators were measurable, and assessing progress may not necessarily address the larger issues of program outcome or the impact it is having in making substantive changes. For example, for meeting the objective of strengthening democratic political institutions to facilitate effective pluralist governance, NDI expected its work to result in Iraqi activists gaining more consistent access to government and political parties to advocate on behalf of their communities. However, NDI did not describe any techniques for measuring "access" or how any increase in access is ultimately strengthening the political institutions. The limitations of this approach were noted by one DoS panelist reviewing the proposal who stated that assessments relied heavily on output-oriented information, such as number of participants trained, and the proposal lacked information on how the grantee would measure impact. Table 4 provides grant objectives and NDI's indicators of progress.

²⁰ NDI presented these indicators in its evaluation plan as a means by which the organization would be able to determine success in meeting grant objectives. These differ from the 37 broad categories of activities noted earlier in this report. The activities were conducted to accomplish grant objectives while the indicators would demonstrate impact.

Table 4—Grant 210 Proposal Objectives and Indicators of Progress

Objectives and Indicators
<p>Objective A: Strengthen democratic political institutions to facilitate effective pluralist governance</p> <ul style="list-style-type: none">• Leadership and members of the Council of Representatives use both formal and informal means of exchanging information about policy issues and upcoming legislation• Key committees of the Council of Representatives consult with relevant outside experts, civil society organizations, and executive branch counterparts on policy and legislation• Leadership and Members of the Council of Representatives are informed of and follow the rules of procedure• Members of Parliament reach out to organizations in policy discussions and consider constituent input• Iraqi activists gain more consistent access to government and political parties to advocate on behalf of their communities• Iraqi non-governmental organizations directly engage policy makers on issues central to the development of democracy in Iraq through direct meetings, public education, and advocacy campaigns• Selected Iraqi non-governmental organizations effectively undertake public advocacy activities• Selected civic organizations enhance their organizational structures to more effectively work towards community needs• Selected political parties work toward political collaboration• Selected political parties develop more democratic internal practices• Selected political parties support public policies that further democratic objectives• Selected political parties more effectively engage independent media• Selected parties plan and implement effective party conventions
<p>Objective B: Provide a neutral space for political opponents to engage in inclusive dialogue and decision-making</p> <ul style="list-style-type: none">• Political parties in Parliament form collaborative relationships that allow for internal debate and democratic decision-making, express the views of their constituents, and are instrumental in shaping policy and legislation• Study mission participants participate in constructive dialogue and build partnerships• Iraqi civic activists convene to identify local community issues and design cooperative responses for positive change• Iraqi non-governmental organizations develop a non-sectarian advocacy agenda around issues of public concern• Iraqi partners use negotiation skills learned in NDI training during debate and discussion

Objectives and Indicators

Objective C: Promote increased participation of youth in political processes

- Youth civic and political party leaders play an active role in policy formation
 - Civic organizations focus on advocating for increased youth political participation
 - Youth build collaborative relationships and coalitions across sectarian lines
 - Youth gain leadership positions with in select political parties and civic organizations
-

Objective D: Promote increased participation of women in political processes

- Women members of parliament, civic leaders and political party activists play an active policy formation role in parliament, civic organizations, and in political parties
 - Civic organizations effectively advocate for gender issues and representation
 - Women gain leadership roles with in the Council of Representatives, political parties, and civic organizations
 - Select civic organizations and political parties reach out to women throughout the country
-

Objective E: Support the observation of elections and strengthen party organizational skills.

- Civic organizations and political parties develop poll watcher plans that include deployment, election day communication, results tracking, and analysis of poll watcher information
 - Civic organizations actively monitor the media for bias
 - Election results as gathered by civic activists are accurately and effectively disseminated to the media, to citizens, and to members of the government
 - Select political parties develop campaign plans that include party constituency input
 - Select political parties develop and implement a non-violence code of conduct
 - Select political parties deploy party agents on election day and accurately monitor, report, and disseminate results of the election
 - Select political parties incorporate considerations of merit and diversity (especially gender) in candidate selection
-

Source: SIGIR Summary of NDI information, August 5, 2007.

Continuing Steps To Improve Impact Assessments

SIGIR recognizes that collecting information and measurements in Iraq to show impact is challenging. According to the GOR and grantee officials, it can be difficult for grantees to demonstrate impact because progress toward goals and objectives is often subjective, some activities may not immediately effect change, and observation of change may be delayed even beyond the life of the grant. The GOR further indicated that the lack of available data in Iraq has hindered grantees in establishing a baseline against which they can measure progress. According to an NDI official, the organization has taken steps to improve its assessments of all of its work in Iraq in part in response to our January 2010 report on DRL management of grants to NDI and

IRI.²¹ In that report, we stated the grantee has not provided DRL with information on grant impact.

For example, the grantee is assessing the status of various aspects of Iraqi society to serve as baseline data from which the organization will be able to assess the impact of its work and plan future work. According to an NDI official, in February 2008, it evaluated the status of the four political parties that partner with the organization in areas such as party structure and operations. The official reported that the organization used this assessment to provide the parties with targeted, party-specific assistance, including internal strategy development, guidance to ensure the parties effectively function as political organizations, and assistance in developing substantive platforms. The official noted that the grantee is currently conducting a follow-up assessment, examining what strategies these parties undertook for the March 2010 election, which groups they partnered with, and what results they had after the election. On an even more macro scale, both an NDI official and reports indicate that it is assessing specific aspects of Iraqi civil society to identify positive developments, challenges, and areas of potential grantee influence such as for non-governmental organizations.

NDI plans to complete a final report when grant 210 expires. According to a NDI official, at that time, it will determine what information it needs to include in its final report to DRL. The official said she expects the report will have some summary of information from quarterly reports, but will also include an overall assessment of grant 210 and its impact. She said this assessment should demonstrate the activities the grantee completed under the grant and the accomplishments and impact the grantee has observed or gathered from other sources. Considering that final progress reports are due 90 days after the grant expires and the grantee was recently awarded a no-cost grant extension to March 31, 2011, the final report would not be provided to DRL until June 30, 2011.

Plans To Assess Impact of Future Grants

In SIGIR's July 2010 report on DoS's management of IRI grants, we reported that DRL officials were taking steps to improve the quality of their evaluation process and determine methods to measure the impact of grant programs and assess the overall impact of DRL's work.²² In that report, we noted that in March 2010, DRL published on its website updated proposal submittal instructions and included a monitoring and evaluation plan primer with a sample monitoring and evaluation plan. The primer states that all proposals being considered for DRL funding must include a comprehensive monitoring and evaluation plan. Monitoring and evaluation plans consist of indicators with baselines and targets; means for tracking critical assumptions; plans for managing the data collection process; and regular collection of data. Grantees should schedule and carry out evaluations throughout the course of the program. Plans should include performance indicators linked to the program's strategic objectives with performance measures that are specific, measurable, attainable, realistic, and timely. DRL also selected standard output-oriented indicators developed by DoS Office of Foreign Assistance under the Foreign Assistance Framework.²³ The primer states that grantees are required to report on relevant DRL

²¹SIGIR 10-012.

²²SIGIR 10-022.

²³ The Foreign Assistance Framework is part of the *Fiscal Year 2007-2012 Department of State and USAID Strategic Plan*, 5/7/2007.

indicators in addition to their own program-specific indicators by each quarter and cumulative over the life of the grant. According to an NDI official, DRL's new monitoring and evaluation requirements have been incorporated into recent grants.

In addition, in our January 2010 report, we recommended that DoS examine DRL's personnel and operations to determine whether the Bureau of DRL is structured and staffed in both headquarters and overseas to effectively and efficiently oversee the grants under its responsibility.²⁴ According to DRL officials, the office hired a dedicated staff member to lead DRL-wide monitoring and evaluation efforts. The office also developed a new internal template to provide more comprehensive guidance to GORs responsible for quarterly impact assessments. DRL also drafted a new grant memo designed to require greater quarterly financial reporting detail, including more explicit instructions about how grantees should detail program progress as it relates to the objectives and how grantees should link progress back to their monitoring and evaluation plans. DRL also provided guidance to its democracy advisors to clearly define oversight roles and integrate these officials with Washington-based oversight efforts. The DRL officials said the office organized an internal monitoring and evaluation working group that helped develop the new protocols; and DRL program officials and GORs have been spending more time with their grantees to strengthen monitoring and evaluation plans before agreements are signed.

²⁴SIGIR 10-012.

Conclusions and Recommendations

Conclusions

Federal regulations require less day-to-day government oversight and accountability for grants than for contracts. Nevertheless, both NDI and DoS have distinct responsibilities to ensure that grant funds are used in accordance with the terms of the grant and OMB regulations. Funds should be spent efficiently and effectively to meet grant objectives. In the case of this grant, NDI was generally a good steward of security funds although we question whether the organization's charges for indirect security costs are allowable in accordance with USAID direction. Additionally, NDI has taken steps to improve its assessments of the extent to which their programs were meeting grant goals and objectives. These evaluation efforts are a good start but it remains incumbent on the organization to fully demonstrate how its activities are meeting the specific goals and objectives of the grant to foster democratic development in Iraq. Without such analyses, it is not possible to determine if the U.S. investment is having the desired impact.

DoS oversight of the grant was limited. To date, the agency has not fully overseen grantee efforts. DoS was not in a position to determine whether the grantee was using funds appropriately. For example, the Department could not determine if NDI overcharged indirect costs at the expense of direct program activities. Nor could DoS determine the extent to which NDI made progress in meeting grant goals and objectives. This occurred for a variety of reasons that we have pointed out in this and previous reports, addressing DoS oversight of not only NDI but also IRI grants. An insufficient number of oversight personnel, insufficient knowledge on the different roles and responsibilities among the various DoS oversight offices, and less-than-comprehensive audit and financial reporting were major contributing factors. Both DRL and AQM have stated that in response to our work, they plan to strengthen their grant management. DRL's recent requirement that grantees provide more comprehensive impact assessments and AQM's plan to hire additional GOs are steps in the right direction.

We found similar problems in DRL and AQM management and for grantee methodologies to determine what costs were allowable, allocable and reasonable for the NDI grant and an IRI grant addressed in a previous report. Given that these problems are manifested in at least two grants for two different organizations, it is likely that the problems persist to various extents for other grants these, and other organizations, receive.

Recommendations

To improve DoS grant management, SIGIR is repeating two of the recommendations we previously made regarding DoS management of grants to IRI which are applicable in the case of NDI with only minor modifications. We are recommending that the U.S. Secretary of State direct offices as she determines appropriate to take the following actions:

1. Require the Grants Officers to instruct NDI to incorporate in its next A-133 audit a comprehensive audit of indirect costs and a compliance audit for at least one major DRL grant. Given the similar problems we found in IRI and NDI grants, we also recommend that

Grants Officers consider requiring these more comprehensive A-133 audits for all DRL grants.

2. Require the Grants Officer Representatives to enforce the grant requirements that NDI provide measurable indicators of their success in meeting grant goals and objectives.

Management Comments and Audit Response

In written comments on a draft of this report, DRL incorporated input from AQM and concurred with the draft report recommendations. Specifically DRL stated the Grants Officer will issue a letter to NDI requiring that its next A-133 audit present supporting calculations for indirect costs and that one major DRL program have a compliance audit. In addition, DRL stated it will continue to work with NDI to ensure that it devises an effective evaluation regime that includes useful and measurable indicators for grant 210.

DRL's comments are reprinted in their entirety in Appendix F. SIGIR also incorporated technical comments from DRL, AQM, and NDI, as appropriate. SIGIR believes that the actions identified by management, if properly implemented, are responsive to this report's recommendations.

Appendix A—Scope and Methodology

Scope and Methodology

In February 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1007b to examine the United States Department of State Bureau of Democracy, Human Rights, and Labor's (DRL) management and oversight of democracy-building grants to the National Democratic Institute (NDI). SIGIR's objectives are to examine the reasonableness, allocability, and allowability of NDI's claimed security costs, and the extent to which the grantee documented its success in achieving grant goals and objectives for its largest grant from DRL in Iraq. We performed this audit under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work during February through June 2010 in Baghdad, Iraq and Arlington, Virginia.

We first obtained and reviewed all grant documents, interviewed DRL, U.S. Agency for International Development, U.S. Embassy Baghdad, and grantee personnel in Washington and in Iraq. We obtained and reviewed budget and cost data submitted by the grantee.

We obtained and reviewed relevant criteria, including Office of Management and Budget (OMB) Circular A-110, OMB Circular A-122, and OMB Circular A-133. To review the reasonableness, allocability, and allowability of security costs reported by the grantee under grant S-LMAQM-07-GR-210 (grant 210), we selected a judgmental sample of invoices submitted by the grantee's security contractor from a schedule of security costs provided by the grantee. We then reviewed the contracts issued by the grantee to the security firm to determine its compliance with federal regulations as well as any applicable grantee policies and procedures. We then reviewed the grantee's internal controls over contractor performance as well as invoice processing.

To determine the extent to which the grantee assessed the impact of grant 210, we interviewed grantee and DRL personnel in both Iraq and Washington, D.C. and reviewed the grantee's quarterly progress reports. To confirm grantee reporting of activities under grant 210, we judgmentally selected a sample of approximately 10% of grantee activities conducted under the grant and reviewed the grantee's supporting documentation, including sign-in sheets, agendas, and training materials. In addition, we visited grantee headquarters in Erbil, Iraq, where we reviewed documentation, interviewed staff, and attended one of NDI's workshops with sub-grantees, performed under another grant.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that SIGIR plans and performs the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-processed Data

We used computer-processed data in this report. The grantee provided security cost data in a report from their accounting system, Deltek. In our previous audit, grantee officials stated they have not modified the software. We reviewed source documents and gathered other evidence to confirm that the data was accurate. We did not review these systems but consider the data sufficiently reliable for the purposes of the audit objectives.

Internal Controls

We reviewed DRL internal control procedures to oversee and manage these grants. Specifically, SIGIR identified and assessed internal controls the grantee used in managing grant costs and activities. The results of the review are presented in the report.

Prior Coverage

We reviewed the following reports by SIGIR and the Government Accountability Office:

Special Inspector General for Iraq Reconstruction

Improved Oversight Needed for State Department Grants to the International Republican Institute, SIGIR 10-022, 7/29/10.

Department of State Grant Management: Limited Oversight of Costs and Impact of International Republican Institute and National Democratic Institute Democracy Grants, SIGIR 10-012, 1/26/10.

Opportunities To Enhance U.S. Democracy-Building Strategy for Iraq, SIGIR 09-001, 10/22/08.

Government Accountability Office

Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results, GAO-06-1046, 9/06.

Rebuilding Iraq: U.S. Assistance for January 2005 Elections, GAO-05-932R, 9/7/05.

Appendix B—Supporting Documentation Review Results

Table 5—Grant 210 Supporting Documentation

Training Description	Noted in Quarterly Reports	Agenda in File	Sign-In Sheet in File	Training Material
Voter contact campaign training	✓	✓	✓	-
Youth round table	✓	-	✓	N/A ^a
Party leader meeting	✓	N/A ^a	N/A ^a	N/A ^a
Training in election monitoring	✓	✓	✓	-
Budget analysis and oversight training	✓	-	✓	✓
Political Training Academy module 4 training	✓	✓	✓	✓
Public analysis and exploration of interests training	✓	-	✓	-
Intensive Political Training Academy	✓	✓	✓	-
Meeting	✓	N/A ^a	N/A ^a	N/A ^a
Media (Spokesperson) training	✓	✓	✓	-
Grant management training	✓	-	✓	-
Community mobilization training of trainers	✓	✓	✓	-
Consultative session	✓	✓	✓	✓
Democracy steps training of trainers	✓	✓	✓	✓
Constituency outreach training	✓	✓	✓	-
Campaign development series modules 1 and 2	✓	✓	✓	✓
Women's Empowerment Program (group 1, module 3 – conflict resolution)	✓	✓	✓	✓
Conflict resolution training	✓	✓	✓	✓
Proposal development training	✓	-	✓	-
Focus group presentation	✓	-	✓	N/A ^a
Campaign development mini-series	✓	✓	✓	✓
Bosnia study mission	✓	✓	-	-
Strategic planning session	✓	✓	✓	N/A ^a
Grant management training second round sub-grant recipients	✓	✓	✓	✓
Session	✓	N/A ^a	N/A ^a	N/A ^a
Meeting	✓	N/A ^a	N/A ^a	N/A ^a
Sub-grant program proposal development	✓	-	✓	-
Youth Empowerment Program/advocacy training-	✓	✓	✓	✓

Training Description	Noted in Quarterly Reports	Agenda in File	Sign-In Sheet in File	Training Material
north region				
Independent Tribal National Gathering, National Reform Trend, & Iraqi Islamic Party field organization/offices training (Political Academy for female party activists)	✓	✓	✓	✓
Islamic Supreme Council in Iraq Youth Empowerment Steps program training	✓	✓	✓	✓
Study mission to Morocco	✓	✓	-	✓
Debriefing session with study mission participants	✓	✓	✓	✓
Total	32	21	26	14

Note:

^aN/A refers to non-applicable items that would not be associated with an activity. For example, a meeting with one individual would not necessitate an agenda, a sign-in sheet, or any training material.

Source: SIGIR analysis of NDI data, as of 12/31/2009.

Appendix C—NDI Assessment of Grant 210 Completion Status

Table 6—Status of Grant 210 Objectives and Activities, as of April 2010

Activity as Described in Grant Proposal	Activity as Implemented and Results	Status
Objective A: Strengthen democratic political institutions to facilitate effective pluralist governance.		
Legislative process—budget analysis, rules of procedure, committee strengthening, strategic planning, protocol trainings	Legislative Drafting Training for Council of Ministers Secretariat and Presidency Bureau (November 2007), Strategic Planning for Council of Ministers Secretariat (August 2008), Capacity-building Training for Committees (10 sessions), Capacity-building with Research Directorate	Complete ^a
Legislative process—develop and publish legislative drafting manual	Rules on legislative drafting to be completed	Incomplete ^c
Legislative process—training for Council of Representatives Finance Committee, Budget Office	6 budget analysis trainings (November 2007, December 2008, January 2009)	Complete ^a
Legislative process—public hearings	Manual on public hearings to be completed	Incomplete ^c
Legislative process—staff Training for Council of Representatives, Council of Ministers Secretariat, and the President's Office	Council of Representatives Economic Committee (March 2008), Office of Vice President Tareq al-Hashemi (May 2009); Confirm contractor portfolio in order to determine training needs	Incomplete ^c
Constituency outreach for Council of Representatives and political parties (training, constituency templates, database, directory of provincial-level ministers, caucus coordination)	Constituency database training for Da'wa party (1 session); development of case-tracking database with information technology team in Washington, D.C. to be completed	Incomplete ^c
Seminars for non-governmental organizations on gauging public opinion and mobilizing civic action	Presented focus group research to civil society organizations and political parties; women's focus group conducted December 30, 2007 to January 9, 2008; Community Mobilization Program, public opinion research sessions, estimated completion May 2010	Complete ^a
Support civic group composed of former NDI staff in Baghdad	NDI was providing technical assistance throughout the non-governmental organization registration process, but at the end of 2007, the non-governmental organization was not registered. Work then ceased because the organization decided to disband of its own volition.	Unfulfilled ^d

Activity as Described in Grant Proposal	Activity as Implemented and Results	Status
Support the development of issues-based coalitions of civic groups	Sub-grants disbursed: Round 1 (9 civil society organizations); and Round 2 (10 civil society organizations)	Complete
Political party training on internal democratic practices	Democracy principles training of trainers sessions	Complete ^a
Political party training on internal and external communication	Constituency outreach training, voter contact training, internal party communication	Complete ^a
Political party training on organizing conventions and congresses	To be determined, based on party assessments and interests. This will be part of the post-election assessment process to review possibilities for upcoming activities.	Incomplete ^c
Political party training on utilizing media	Media training, party spokesperson training (Iraqi Nation Party, Patriotic Union of Kurdistan, Da'wa, Multi-Party Women's Caucus)	Complete ^a
Objective B: Provide a neutral space for political opponents to engage in inclusive dialogue and decision making.		
Coalition-building training for political parties (inside and outside the Council of Representatives)	This will be re-examined for appropriateness in the post-national election period.	Unfulfilled ^d
Council of Representatives study missions	Northern Ireland (October 25-November 3, 2007), United Kingdom/European Union Parliament (March 2009)	Complete ^a
Community Mobilization Program (initial conference in Erbil, trainings on community mobilization, conflict management, project management, study mission to Morocco)	Trainings and Morocco study mission (November 8-18, 2009), estimated completion August 2010	Ongoing ^b
Political party negotiation and conflict resolution training (3 phases)	Phase 3 (Phase 1 and 2 reported under different DRL grants)	Complete ^a
Conflict resolution forum in Kirkuk	Kirkuk forum: October 24-25, 2007	Complete ^a
Objective C: Promote increased participation of youth in political processes.		
Focus group research on youth attitudes	Youth focus groups (August 15-September 7, 2007) Reported under another DRL grant; Possibly used in trainings under different DRL grants	Unfulfilled ^d
Civil society youth training series (conference, study mission)	Youth Empowerment Program (Youth for Change camp, training, study mission planning underway), estimated completion July 2010	Ongoing ^b
Multi-party Youth Training Academy (5 modules)	Youth Empowerment Steps—Round 1 complete, Round 2 to be completed	Ongoing ^b
National forum for Youth Training Academy graduates		Unfulfilled ^d
Advanced Youth Political Party	Youth Empowerment Steps – Round 1 complete,	Ongoing ^b

Activity as Described in Grant Proposal	Activity as Implemented and Results	Status
Organizers Academy (trainings, study missions, internships)	Round 2 to be completed	
Annual model Youth Parliament (with Council of Representatives Sports and Youth Committee)	Parliament internship program was undertaken.	Unfulfilled ^d
Objective D: Promote increased participation of women in political processes.		
Support the development of a parliamentary women's caucus	Limited consultations and technical assistance to the parliamentary women's caucus, which was announced in September 2007 with support from United Nations Development Fund for Women	Complete ^a
Capacity-building training academy for female legislators	Broadened scope of activity to conduct political academy for female party activists (3 of 5 modules complete, estimated completion September 2010); political academy for female Council of Representatives Members of Parliament to be completed	Ongoing ^b
Build networking capabilities of female activists and civil society organizations to build advocacy capacities	Women's Empowerment Program (trainings and Jordan study mission)	Complete ^a
Support and disseminate research on status of women's rights	To be determined by mid-2010, only if other activities associated with post-election grant would benefit from research	Incomplete ^c
Objective E: Support the neutral observation of elections and strengthen party organizational skills.		
Election monitoring for provincial elections (master trainers, training of trainers, code of conduct, training materials)	Election monitoring training for civil society organizations, capacity-building for Iraqi Election Information Network	Complete ^a
Election monitoring for constitutional amendment referendum	No vote on constitutional referenda scheduled, making completion of activity impossible	Unfulfilled ^d
Produce 3 videos on election observation, constitutional review, and role of Provincial Councils	Current program needs would not benefit from videos; the need for these has been largely met through local engagement and training by provincial coordinators.	Unfulfilled ^d
National Conference in Baghdad to present results of provincial elections	Not possible with Iraqi Election Information Network, the original domestic monitoring network with which NDI worked.	Unfulfilled ^d
Media monitoring training for provincial and constitutional elections	All media monitoring trainings have been reported under another DRL grant; the activity was not possible for the constitutional election as those were not held and are not currently scheduled.	Unfulfilled ^d
Political party campaign training for provincial elections	Campaign development series Module 1 to 6, Bulgaria study mission (June 29-July 7, 2009)	Complete ^a
Party code of conduct for provincial elections	Lack of interest from parties in time for completion.	Unfulfilled ^d

Activity as Described in Grant Proposal	Activity as Implemented and Results	Status
Party agent training for provincial elections (simulation video)	All party agent trainings have been reported under another DRL grant; the need for the video was fulfilled by other training activities.	Unfulfilled ^d
Political party training on candidate selection	Patriotic Union of Kurdistan; strategy discussions with parties	Complete ^a

Notes:

^a Complete: the grantee has finished all activities.

^b Ongoing: the grantee has initiated work on activities, but has not completed them.

^c Incomplete: the grantee has conducted a portion of the work in these activities, but remaining work is either pending or being reevaluated due to changes in the political environment.

^d Unfulfilled: the grantee has not yet begun work on these activities.

Source: SIGIR analysis of NDI information, as of April 2010.

Appendix D—Acronyms

Acronym	Description
DoS	United States Department of State
DRL	Bureau of Democracy, Human Rights, and Labor
GO	Grants Officer
GOR	Grants Officer Representative
IRI	International Republican Institute
NDI	National Democratic Institute
OMB	Office of Management and Budget
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development

Appendix E—Audit Team Members

This report was prepared and the audit conducted under the direction of Glenn Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Bill Bedwell

Daniel Chen

Joan Hlinka

Whitney Miller

Robert Whiteley

Appendix F—Department of State—Bureau of Democracy, Human Rights, and Labor Comments



United States Department of State
*Assistant Secretary for Democracy
Human Rights and Labor
Washington, D.C. 20520-7802*

October 1, 2010

Dear Mr. Furbish:

The Department of State's Bureau of Democracy, Human Rights, and Labor (DRL) submits the following response to the recommendations included in the audit report "National Democratic Institute Grant's Security Costs and Impact Generally Supported, but Department of State Oversight Limited." DRL has included in its response input from the Bureau of Administration, Office of Acquisitions Management (AQM), which provides Grants Officer management for DRL programs.

(1) Require the Grants Officers to instruct NDI to incorporate in its next A-133 audit a comprehensive audit of indirect costs and a compliance audit for at least one major DRL grant. Given the similar problems we found in IRI and NDI grants, we also recommend that Grants Officers consider requiring these more comprehensive A-133 audits for all DRL grants.

➤ **Concur.** The Grants Officer will issue a letter to NDI requiring that the next A-133 audit present supporting calculations for indirect costs and that one major DRL program have a compliance audit, as allowed under OMB circular A-133 Subpart B 200(c) Audit requirements. AQM will also consider whether to require these audits for a larger selection of DRL grants.

(2) Require the Grants Officer Representatives to enforce the grant requirements that NDI provide measurable indicators of their success in meeting grant goals and objectives.

➤ **Concur.** DRL will continue to work with NDI to ensure that it devises an effective evaluation regime that includes useful and measurable indicators for grant S-LMAQM-07-GR-210.

Mr. Glenn D. Furbish,
Assistant Inspector General for Audits,
400 Army Navy Drive,
Arlington, VA 22202.

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I hope this information is useful. Please do not hesitate to contact Patricia Davis at 202-663-2689 if you have additional questions.

Sincerely,



Michael H. Posner

Appendix G—SIGIR Mission and Contact Information

SIGIR's Mission	Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective: <ul style="list-style-type: none">• oversight and review through comprehensive audits, inspections, and investigations• advice and recommendations on policies to promote economy, efficiency, and effectiveness• deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse• information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline: <ul style="list-style-type: none">• Web: www.sigir.mil/submit_fraud.html• Phone: 703-602-4063• Toll Free: 866-301-2003
Congressional Affairs	Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone 703-428-1059 Email hillel.weinberg@sigir.mil
Public Affairs	Deborah Horan Director of Public Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone: 703-428-1217 Fax: 703-428-0817 Email: PublicAffairs@sigir.mil
